



IAB LEVEL 3 CERTIFICATE IN FINANCE FOR NON-FINANCIAL MANAGERS

(Qualification Accreditation Number 500/3159/4)

INTRODUCTION

The overall aim of this qualification is to accredit candidates' knowledge and understanding of the fundamental principles of financial management. Within the qualification candidates have the opportunity to gain knowledge of the nature of accounting, accountability and stewardship within a business environment and the analysis and interpretation of financial statements. Candidates will also gain an appreciation of the methods and importance of planning, informed decision-making and control within business through studying working capital maintenance, sources of funding, cost behaviour and investment appraisal.

The qualification is specifically designed as an introduction to financial management for non-specialists and therefore emphasis will be placed on analysing and explaining numerical calculations rather than book-keeping entries within the accounting records. However, candidates will be expected to show a high degree of accuracy in their work.

This is a stand-alone qualification which is not specifically linked to any other qualification; however it may be used to supplement other book-keeping, accounting and management qualifications where candidates require an overview of financial management. It may also be useful for candidates studying non-financial degrees and other courses where some knowledge of financial management is required.

To be awarded the qualification, candidates are required to successfully demonstrate their competence by means of an external examination.

ASSESSMENT

All Learning Outcomes will be assessed through one, externally set and marked, two hour examination. There will be two compulsory questions in section A and then a choice of two from three in section B. The first compulsory question in section A is worth 35 marks and the second question is worth 15 marks. Both questions answered in section B will be worth 25 marks. The assessment will build on the candidates' financial management knowledge and will assess the candidate's ability in relation to the Learning Outcomes. Candidates will be required to carry out the tasks accurately and in keeping with current accounting concepts and practice. Faults will be incurred where candidates make errors in numeracy, spelling or failing to follow required procedures.

CERTIFICATION

All candidates who achieve a Pass grade will receive a formal Results Letter and may apply for a Certificate in Finance for Non-Financial Managers.

IAB Level 3 – Finance for Non Financial Managers

Aim of the Unit

- Understand the nature of accounting, accountability and stewardship within a business environment
- Understand how financial statements can be analysed and interpreted to judge the performance of a business
- Understand the importance of working capital maintenance
- Identify and assess different sources of funding available for business
- Understand and distinguish between costs based on their behaviour
- Understand and use cost behaviour for decision making
- Understand and make appropriate pricing decisions for business
- Assess the viability of a project using investment appraisal techniques

Prior Knowledge and Skills Requirements

This Unit may be studied independently and there is no prerequisite knowledge or skills required.

Learning Outcome	Assessment Criteria
1. Understand the nature of accounting, accountability and stewardship within a business environment	<p>Understand the nature and purpose of book-keeping and accounting and the difference between them.</p> <p>Be able to:</p> <ul style="list-style-type: none">• Explain the difference between book-keeping, financial accounting and management accounting.• Identify different stakeholders and their interest in the financial position of the business.• Explain how accounting can be used for planning, decision making and control. <p>Understand that book-keeping is a system of providing financial information through recording and summarising the transactions of a business. Understand that accounting produces the results of a business in standard formats to enable stakeholders to assess performance and stewardship.</p> <p>Be able to:</p> <ul style="list-style-type: none">• Identify and describe the fundamental accounting concepts of going concern, accruals, consistency, prudence and true and fair.• Identify the key elements of financial statements (income, expenses, assets, liabilities, capital) and describe their relationship using the accounting equation.

<p>1. Understand the nature of accounting, accountability and stewardship within a business environment (continued)</p>	<ul style="list-style-type: none"> • Identify the main financial statements and explain how they are compiled (Profit and Loss Account, Balance Sheet and Cash Flow Statement). • Explain the purpose of the main financial statements (Profit and Loss Account, Balance Sheet and Cash Flow Statement). • Describe how financial accounts are regulated using accounting standards.
<p>2. Understand how financial statements can be analysed and interpreted to judge the performance of a business</p>	<p>Understand how financial statements can be analysed and interpreted using ratio analysis so that stakeholders can judge the performance of a business.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Identify likely users of ratio analysis and explain how they might use the information. • Calculate and interpret profitability ratios (gross profit, net profit, ROCE, asset turnover). • Calculate and interpret liquidity ratios (current ratio, acid test ratio, debtor days, creditor days, stock turnover days). • Calculate and interpret investment ratios (gearing, interest cover, simple EPS) • Use ratio analysis to make comparisons between one business over time, two businesses or to compare results to industry standards. • Explain the benefits and limitations of ratio analysis.
<p>3. Understand the importance of working capital maintenance</p>	<p>Understand that management of working capital is important for the survival and development of a business.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Identify the components of working capital (stock, debtors, creditors, and cash) and draw and explain the operating (cash flow) cycle. • Explain how different businesses have different operating (cash flow) cycles and therefore different working capital needs, and give examples. • Calculate the operating (cash flow) cycle in days. • Identify the costs of holding stock and calculate the Economic Order Quantity (EOQ). • Explain how stock can be managed to minimise the cost of holding it. • Explain how debtors can be managed through good credit control procedures.

<p>3. Understand the importance of working capital maintenance (continued)</p>	<ul style="list-style-type: none"> • Explain how creditors can be used as a source of finance and identify the costs of trade credit. • Explain how the elements of working capital can be managed effectively to minimise borrowing and its associated costs. <p>Understand how a cash flow forecast can be used to predict and manage future working capital requirements.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Distinguish between 'cash' and 'profit'. • Identify and understand the implications of non-cash accounting adjustments such as depreciation and provision for bad debts. • Prepare a simple cash flow forecast and identify periods of cash excess or cash shortage.
<p>4. Identify and assess different sources of funding available for business</p>	<p>Understand that there are a range of sources of finance available for businesses and those different types of finance are suitable for different purposes.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Identify the major sources of finance for businesses (loans, shares, investment by third parties, hire purchase, finance leases, debt factoring, and trade creditors). • Explain how profits can be retained within the business to help fund expansion and assist in obtaining loans and overdrafts. • Describe the advantages and disadvantages of different sources of finance. • Identify the implications of different sources of finance in terms of cost, ownership of assets and failure to repay borrowed funds. • Select appropriate sources of finance to solve a business problem or proposed project, recognising the importance of matching long/short term finance with long/short term projects.
<p>5. Understand and distinguish between costs based on their behaviour</p>	<p>Understand that costs can be classified in different ways based on their behaviour.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Distinguish between direct and indirect costs. • Allocate and apportion indirect costs to direct production cost centres. • Distinguish between fixed, variable, semi-variable and stepped costs and give examples of each type of cost.
<p>5. Understand and distinguish between costs based on their behaviour (continued)</p>	<ul style="list-style-type: none"> • Draw or identify graphical representations of fixed, variable, semi-variable and stepped costs. • Calculate the fixed and variable elements of semi-variable costs using the high/low method.

<p>6. Understand and use cost behaviour for decision making</p>	<p>Understand that knowing how costs behave can be important for decision making and use cost analysis to make recommendations.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Calculate contribution (selling price less variable costs) and explain how maximising contribution will maximise profits. • Identify a limiting factor and recommend a production plan which will maximise contribution (ranking decision). • Calculate breakeven point and margin of safety. • Draw a cost-volume-profit chart (breakeven chart). • Identify relevant costs for decision making. • Perform calculations and accept or reject business proposals based on relevant costs. • Identify and explain the limitations of break-even analysis.
<p>7. Understand and make appropriate pricing decisions for business</p>	<p>Understand that there are a number of factors that affect pricing policies and make appropriate pricing decisions based on full cost plus pricing and marginal cost plus pricing.</p> <p>Be able to:</p> <ul style="list-style-type: none"> • Identify the factors that affect pricing policies. • Explain the product life cycle and how this influences pricing policies. • Calculate full cost using a given fixed overhead absorption rate. • Calculate selling price based on full cost plus pricing. • Calculate selling price based on marginal cost plus pricing. • Outline the advantages and disadvantages of full cost plus pricing and marginal cost plus pricing. • Describe market penetration pricing, price skimming and differential pricing. • Explain the impact of over-under absorption of overheads with changes in activity levels.

8. Assess the viability of a project using investment appraisal techniques

Understand the significance of the time value of money when making investment decisions and assess the viability of a project using investment appraisal techniques.

Be able to:

- Distinguish between 'capital' and 'revenue' expenditure.
- Calculate the payback period of a project, compare with company policy on payback and recommend whether the project should go ahead.
- Outline the advantages and disadvantages of appraising a project using payback.
- Calculate the Net Present Value (NPV) of a project using discount tables, compare with company policy and recommend whether the project should go ahead.
- Outline the advantages and disadvantages of appraising a project using NPV.
- Explain the Internal Rate of Return (IRR).
- Identify and explain non-financial considerations for project appraisal, for example, legal issues, ethical issues, quality implications, economic implications and personnel implications.

